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SUBJECT: NEPAL'S REMITTANCES GROW AMIDST DETERIORATING
WORLD ECONOMY

Summary

11. (SBU) Nepal's level of remittances grew 65.3 percent in the July 15-January 15 period, defying numerous local press reports that remittance growth would be severely affected by the deteriorating world economy. Excluding India, record numbers of Nepalis continue to leave the country and seek employment primarily in Malaysia, Qatar, United Arab Emirates, and Saudi Arabia. The Government of Nepal is offering a partial worker permit reimbursement scheme in case overseas Nepalis lose their jobs and are sent home and is placing employment creation as a priority in its fiscal year 2010 budget process. Declining economic conditions in Malaysia and Gulf countries will likely challenge Nepali employment prospects in mid-late 2009.

Remittances Grow in 2009

12. (U) While local press reports a dismal outlook for Nepali overseas workers, remittances continue to flow back to Nepal at record levels. Nepal Rastra Bank (NRB), Nepal's central bank, reported in early March that worker remittances to Nepal increased 65.3 percent in the first six months of Fiscal Year (FY)09 (July 15-January 15) compared to FY08. In 2008, remittances to Nepal totaled \$2.2 billion and 15.5 percent of GDP, according to the International Labour Organization (ILO). The current depreciation of the Nepali Rupee (NR) against the dollar increases the value in Nepali terms of remittances from foreign workers in the Gulf. The Qatari Riyal, United Arab Emirates (UAE) Dirham, and Saudi Riyal are all pegged to the dollar; remittances sent back to Nepal are worth increasingly more the more the rupee depreciates. The Nepali Rupee continues to slide against the U.S. dollar due to the weakening Indian Rupee (the Nepali Rupee is pegged at NRs 1.6 to the Indian Rupee). From mid-July through mid-January, the Nepali Rupee depreciated 11.9 percent compared to a 3.1 percent appreciation during the same period a year earlier. NRB set a record low exchange rate of NRs 82.8 to the dollar on March 4 (the July 15 exchange rate was NRs 68.5 to the dollar).

Nepalis Working Abroad: The Numbers

¶3. (U) The Department of Foreign Employment on February 23 contradicted projections of fewer Nepalis leaving for work when it reported an eight percent rise of laborers leaving Nepal from mid-January to mid-February compared to the previous month (18,715 against 17,300). The Ministry for Labour and Transport Management reported that 239,637 Nepalis left for overseas work in FY08 (656 per day average from July 16, 2007-July 15, 2008) compared to 199,191 in FY07 and 136,131 in FY06. Excluding India, 93 percent of Nepalis leaving for overseas work travel to Qatar, Malaysia, Saudi Arabia, and the United Arab Emirates (UAE), although the Government of Nepal has negotiated permission to send workers to 107 countries. Malaysia hosts the largest number of Nepalis (approximately 400,000), but Qatar absorbed the most Nepalis in FY08 (85,441) due to a favorable labor agreement and construction boom. More than 1.3 million people traveled abroad for jobs through registered manpower companies alone by mid-January 2009, according to the Minister for Labour and Transport Management Lekh Raj Bhatta. In addition to documented workers leaving Nepal on work permits, an estimated two million Nepalis work in India at any given time; most are seasonal migrants who take advantage of the lack of border and employment restrictions to find extra work and reduce family income deficiencies.

Government of Nepal Reactions and Actions

¶4. (U) To alleviate the impact of potential overseas job cuts, the Government of Nepal announced in January that it

KATHMANDU 00000201 002 OF 002

will reimburse 40 percent of manpower fees (fees average between \$1,000-\$3,000 per worker) if workers return within six months and 25 percent of fees if workers return within a year and carry certification from the Nepal consular office or embassy abroad that the job loss was due to economic conditions. However, the Foreign Employment Promotion Board claimed that the relief fund would run out of money if the number of workers returning to Nepal kept increasing. NRs 24.5 million (approximately \$299,000 at the exchange rate of NRs 82 to the dollar) has been set aside for the relief fund in FY09, according to a January 29 Himalayan Times report.

¶5. (SBU) In a preliminary FY10 budget discussion on March 2, the Ministry of Finance announced it will address the potential impacts of the global economic crisis by requiring employment creation programs in every ministry. In the current policy arena, government officials have been providing press a variety of comments on how to prepare for potential negative economic impacts. On February 11, Minister for Labour and Transport Management Lekh Raj Bhatta accused the Finance and Foreign Ministries of performing below expectations in regards to the potential crisis and singled out the Foreign Ministry in particular as not making diplomatic efforts to enlarge job opportunities overseas. Additionally, the local press reports that the government is in labor discussions with new employment destinations including Oman, Libya, Papua New Guinea, and Lebanon.

Global Economic Crisis: Predictions of Nepal's Remittances

¶6. (U) The World Bank predicted in its November 2008 "Outlook for Remittance Flows: 2008-2010" that remittances from South Asians in the Gulf could decline by nine percent in dollar terms in 2009, compared to a 38 percent increase in the previous year. World Bank Country Director Susan Goldmark has encouraged donors to begin to consider employment schemes anticipating a major return flow of migrant labor. Oil-funded construction projects are being shelved in Bahrain, Kuwait, Qatar, Saudi Arabia, and the UAE, which employ roughly 11 million workers from Asia, according to a variety of international press reports. According to the local Nepali press, remittance contractions of up to 40 percent are pending, as well as fewer worker departures, and

an influx of workers returning home after losing jobs abroad.

Additionally, Manolo Abella, ILO's Chief Technical Advisor on Labour Migration, issued a February report claiming worker safety issues could be exasperated during the global recessionary period. Abella stated that due to the large investment required to secure an overseas work permit, many laid-off foreigners residing overseas may attempt to stay in the country to try and earn income to pay off their investment and thus become illegal and vulnerable to abuse.

Comment

17. (U) Local press in Nepal issue claims almost every day forecasting impending worker returns and domestic economic problems. Remittance growth reported in January 2009 in Nepal and neighboring Bangladesh and Pakistan (with a majority of its workers in Gulf States) strongly suggest the "looming crisis" as repeatedly reported may not be as bad as assumed for South Asian economies. Strong December/January remittance data and growing worker departures place Nepal in position to maintain remittance growth in the short term, but long-term growth (beyond FY09) amidst a faltering global economy will be dependent on the continued ability of Nepalis to secure and take up jobs overseas. In the meantime, each month this developing country experiences remittance growth and more workers leave the country than come home is welcome news. Remittances are driving consumer purchases and construction projects, usually securing credit from poorly regulated banks. A major downturn could lead to bank failures.
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